

**MINUTES OF THE MEETING OF THE AUDIT AND RISK MANAGEMENT
COMMITTEE
HELD ON THURSDAY, 1 SEPTEMBER 2016**

COUNCILLORS

PRESENT Mary Maguire, Guney Dogan, Robert Hayward and Chaitali Roy

ABSENT Jansev Jemal, Doris Jiagge, Terence Neville OBE JP and George Savva MBE, Asmat Hussain (Assistant Director Legal & Governance Services), James Rolfe (Director of Finance, Resources and Customer Services) and Christine Webster (Head of Internal Audit and Risk Management)

CO-OPTED

OFFICERS: Roy Baker (Assistant Head of Finance), Isabel Brittain (Assistant Director of Financial Management), Jayne Fitzgerald (Finance & Business Partner SCS), Ann Freeman (Assistant Head of Finance), Asmat Hussain (Assistant Director Legal & Governance Services), James Rolfe (Director of Finance, Resources and Customer Services), Vivian Uzoechi (Insurance Manager) and Christine Webster (Head of Internal Audit and Risk Management) and Metin Halil (Secretary)

Also Attending: David Eagles (BDO), Andrew Barnes (BDO)

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WELCOME AND APOLOGIES FOR ABSENCE

Councillor Maguire (Chair) welcomed everyone to the meeting.

Apologies for absence were received from Councillors Neville, Savva, Jemal and Jiagge.

Apologies for absence were also received from James Rolfe (Director – Finance, Resources & Customer Services), Asmat Hussain (Assistant Director – Legal & Governance) & Christine Webster (Head – Internal Audit & Risk Management).

There would also be a private meeting between the Auditors (BDO) and Members at the end of the meeting (15 minutes).

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DECLARATION OF INTERESTS

There were no declarations of interest.

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DRAFT STATEMENT OF ACCOUNTS 2015/16, DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16 & QUESTION/RESPONSE DOCUMENT.

RECEIVED the draft 2015/16 Statement of Accounts in advance of the final statement being submitted for consideration and approval at the next Audit Committee meeting on 29 September 2016.

NOTED

1. The Chair announced that there would be a 15 minute private meeting with the Auditors (BDO) and members, at the end of this discussion meeting regarding the draft accounts.
2. Isabel Brittain, Assistant Director – Finance and Business Support, had received councillors questions regarding the draft statement of accounts 2015/16, since the last meeting (4 July 2016), with the finance team providing responses for these. The questions and responses have been attached to these minutes for reference purposes.
3. It was agreed that the finance team would go through each question and response and answer any queries that may arise from each response:
 - 3.1 – Debate by members and answers to questions by officers regarding the increase in debt over 2015/16 and since that date. Officers clarified that the Meridian Water and Housing Gateway schemes would eventually get a return but it would not necessarily have the net effect of reducing debt down or doesn't need to be the net effect to reducing the debt down. It would not all be dependent on the sale of units either. The negotiated contract (Meridian Water) was for staged payments to be received. When the developer draws down a piece of land, the Council would receive 15% of that land immediately, then a further 10% 12 months later with the remainder 2 years later. These payments would be received regardless of any unit sales, the developer is contractually obliged before they can even start construction, to pay the Council back. This was therefore a low risk contract for the Council.
The Council borrowing limit of £800m related to borrowing across the organisation. The Meridian Water project had a cap which the Council did not want to exceed, of £170m.
 - 3.2 - Members agreed the comprehensive answer to this question, detailed at question 2 of the list.

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- 3.3 - Debate by members and answers to questions by officers regarding why the Capital projections were significantly different to outturn. Officers clarified that the vast majority of slippage was in relation to the Housing Revenue programme (HRA). Finance are in talks with the department to increase their profiling of the budget. What they have been undertaking was that they if the project started in the financial year, they would put the entire project budget into the financial year whereby 9 times out of ten that project budget would not have all been spent within 12 months. Finance are working with project managers, to profile their spend in a better way.
- Officers also clarified the last sentence in their response which stated "The HRA underspend is a result of LBE past investment being passed to Enfield Innovations for financing". There had been a reduction as well as a re-profiling in the HRA programme. What was going to be delivered as part of the HRA programme, was now going to be delivered as Enfield Innovations, which is the general fund owned company. So the department will be delivering that service. The HRA programme had fallen and general fund is off set. Therefore, it was not all about re-profiling slippage in that budget. There had been a reduction in the HRA programme for 4 years and had been compensated by the Enfield Innovations budget.
- 3.4 - Members agreed the comprehensive answer to this question, detailed at question 4 of the list.
- 3.5 - Members agreed the comprehensive answer to this question, detailed at question 5 of the list.
- 3.6 - This question was around changes to the Statement of Accounts timetable. The Statement of Accounts timetable would be drastically reduced and all Local Authorities would have to close and audit their accounts down much quicker. Finance pulled together a list of actions that they would be undertaking for future years on how they would be closing the accounts quicker and how this would be managed going forward. The new plans would come into force for the 2017/18 financial year.
- 3.7 - This question was regarding the income expenditure accounts and why there had been some fluctuations in the outturn. Officers clarified that one of the key issues here was that the Council re-structures and Hub changes meant that many employees were put into the hubs and their salaries were charged to those cost centres whereas before they were attributed to the relevant services. Officers also clarified what the Hub changes were supposed to achieve and how they worked and the savings achieved to date.
- 3.8 - Members agreed the comprehensive answer to this question, detailed at question 8 of the list.
- 3.9 - This question was around the change in short term borrowing levels and reasons behind keeping short term borrowing. Officers also clarified that the Council were now looking into

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fixing some more long term borrowing while rates are low and that this was always under review.

Finance undertook regular monthly meetings with treasury advisers who would advise what the outlook is looking like in their opinion. Finance always react and respond quickly to treasury advice and review all their prudential indicators as and when any decisions on borrowing are made at the time.

Financial regulations also state that the Council has to go through Cabinet to seek authority to increase borrowing.

- 3.10 - Members agreed the comprehensive answer to this question, detailed at question 10 of the list.
- 3.11 - Finance were waiting for CIPFA to publish the Code of Practise Practitioner Guidance notes. This would then be reported back to Committee regarding any impact this may have to the Council. Officers further clarified that the changes in accounting standards, which will be introduced in the 2016 Code of Practise, will mean that parts of the core financial statements will appear differently in 2016/17 as to how they appear in 2015/16. In comparison, the 2016/17 accounts will be set alongside the 2015/16 accounts where relevant figures have been understated. The 2015/16 accounts would not be specifically re-audited as they would form part of the audit for the 2016/17 accounts which embraces the higher comparators. Andrew Barnes (BDO) further clarified that where there has been a presentation of previous information in a different format, the BDO audit will consider how to translate that information from the old format to the new format. Part of next year's accounts would include a translation of the old to new formats. This should be easier to understand and Members will be able to see the whole budget cycle in the same format rather than the old accounts format.
- 3.12 - Members agreed the comprehensive answer to this question, detailed at question 12 of the list.
- 3.13 - This question was around the management of investment properties and the response shows a breakdown of that information. Officers clarified that the investment portfolio includes all the Council's industrial estates and HRA shops. These were properties the Council receives a rental income from. The income can be used to offset the cost of other services. The assets themselves will go up in value and the reason for the significant increase in those values is because they are based on rental income. Those properties could be sold to raise capital but the Council would then lose small businesses, revenue and revenue income streams to the Council which is then used to fund public services.
- 3.14 - Members agreed the comprehensive answer to this question, detailed at question 14 of the list.
- 3.15 – This question was around the explanation in the reduction in interest rates and their impact to the Council. Officers clarified that there was some benefit to the Council when taking out new

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loans. The older loans were still on the older rates. When the Council borrowed from the Public Works Loan Board (PWLB), the interest rates are usually on a fixed basis.

- 3.16 – This question related to the HRA repairs fund. Officers clarified that it had been confirmed that there was not a revenue underspend in 2016/17. The budget overall is being looked at to make sure its adequate for need and we don't need such a high budget for HRA repairs. There has been a general need for savings need with the HRA due to a rental freeze occurring at present. So there has been a loss of income on the HRA.
- 3.17 – This question was about £15m of reserves that had been used to manage the 2015/16 outturn and is the Council expecting to use one off monies to the 2016/17 outturn. Officers clarified that the last budget monitor, at present, is stating that there is a potential issue with this year's budget as in there is a potential overspend of £7.9m. However, directors have been tasked to look for ways to reduce spend within their services, so as not to have to use one off funding in order to balance the budget for 2016/17. This was the goal, however there may be some planned ear mark use of reserves for the 2016/17 outturn.
- 3.18 – This question related to a simple breakdown of Private Finance Initiative (PFI) contract costs and how long they have to run. Officers clarified that PFI's initially run for 25 years. The table in the response sheet for question 18 shows costs of those PFI's and the years left to run on those. Finance looked at ways to get out of these PFI arrangements (i.e. street lighting) but there wasn't an economical way to do this due to the rules surrounding PFI's. This is detailed at page 74 of the 2015/16 draft statement of accounts.
- 3.19 - Members agreed the comprehensive answer to this question, detailed at question 19 of the list.
- 3.20 – This question was around a breakdown of the bodies external to Central Government. Officers clarified that these were not only external companies but also included individuals, organisations and companies who provide goods and services to the Council that fall out of the Public Sector boundary. A diverse delivery model for LBE is going to include several thousand different vendor suppliers. These suppliers only get captured in the related party's disclosures if a member or chief officer has an element to that disclosure.
- 3.21 – This question related to the accumulated staff absences provision and whether it was possible to reduce the position and use the one off funding elsewhere. Officers clarified that it was a purely notional liability. The Council did not have a choice. It had to recognise that notional liability in its balance sheets. Any fluctuation in that liability did not impact on the general fund or HRA. So the only real effect of any provision made for this notional liability is that it reduces the Council's worth.
- 3.22 - Members agreed the comprehensive answer to this question, detailed at question 22 of the list.

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- 3.23 – This question related to the increase of pooled budgets and what the level of this budget is in 2016/17. Officers clarified that pooled budgets had increased over the last 2 years due to the introduction of the better care fund and the budget for this is 318.8m in 2016/17. In future years, the Council will be using the better care fund in financial years 2018/19 & 2019/20.
- 3.24 - Members agreed the comprehensive answer to this question, detailed at question 24 of the list.
- 3.25 – Members agreed the comprehensive answer to this question, detailed at question 25 of the list.
- 3.26 - Members agreed the comprehensive answer to this question, detailed at question 26 of the list.
- 3.27 – This question related to the number of members in the Pension scheme and the impact of recent redundancies on the scheme. Officers clarified that the Council generally makes up the difference to bridge the gap of pension contributions lost to redundancy. Chaitali Roy (Independent Member) questioned if the Council continued to pay employers contributions or employee's contributions. Officers clarified that this was only relevant where an employee is made redundant at 55 or over and is a member of the local Government Pension Scheme. Under the current regulations they are able to access their pension but earlier than the planned retirement age of 66. There is a shortfall in resources that are available and therefore that would be a cost to the Pension Fund which hasn't been planned for or reflect in the contribution rates. So that shortfall is covered by the Council's general fund which is built up as an ear marked reserve over a number of years. The Chair stated that there is a need to check if people retiring at 55 on the basis of those rules would have been covered by the scheme at their retirement age of 60. Because there was protection built in for this when the scheme was re-negotiated. Therefore, this would not be the case that everyone would have worked to the age of 66.
- 3.28 – This question asked what value of right to buy receipts was the Council currently holding and the plans for their usage. Officers clarified that the reason the Council had a lot of the remaining receipts remaining versus the useable receipts was because the Council are restricted in what the receipts are used for. The receipts have to be used for additionality to the Council housing stock.
- 3.29 - Members agreed the comprehensive answer to this question, detailed at question 29 of the list.

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MINUTES**

AGREED that the minutes of the Audit & Risk Management Committee held on the 4 July 2016 be approved and signed as a correct record.

NOTED the progress update on actions identified at previous meetings.

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AUDIT & RISK MANAGEMENT COMMITTEE WORK PROGRAMME
2016/17**

RECEIVED and noted the Committee's updated work programme for 2016/17.

AGREED to approve the outline work programme for 2016/17, subject to the inclusion of Business Rates as an agenda item to be heard at a future Audit & Risk Management meeting.

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DATES OF FUTURE MEETINGS**

NOTED the dates of future meetings:

Thursday 29 September 2016
Tuesday 1 November 2016
Thursday 12 January 2017
Tuesday 7 March 2017

(All meetings to commence at 7.00pm unless otherwise agreed.)